Free amortization calculator

If you need to determine how much you can borrow for a specific monthly payment or what the monthly payments will be on a certain loan amount. Use our amortizing loan calculator to help you answer these questions. These are important factors to understand, so you take out a loan you can really afford. In accounting, you do not have to treat paying for a loan as paying for office furniture. Suppose you pay your bank $100,000 tomorrow to take out a three-year, $3 million loan. Rather than treating $100,000 as a regular business expense, the accounting treatment of loan processing fees requires claiming it gradually over the life of the loan. Starting loan costs may include underwriting, origination fees and application fees. Accounting amortizes fees to spread expenses over the life of the loan. If you have $400,000 in fees on a five-year loan, you amortize a fifth of the fees, or $80,000, each year. You amortize the loan interest in the same way. The accounting treatment of fees for the processing of loans is based on the corresponding accounting principle. This guideline says that if there is a cause-effect relationship between revenue and expenses, you match them with the same fiscal period. Otherwise, you register the money you pay as a regular expense. Depreciation is an example. Let's say you buy a piece of computer equipment that according to accounting rules has a life expectancy of four years. Instead of reporting the purchase price as an expense, you write off the cost over the four years. The same matching principle applies to the accounting treatment of loan processing fees. Any costs you pay in advance are matched with the loan time frame. If you have a five-year loan, you account for the depreciation of loan fees over five years; for a 10-year loan, amortization of financing fees lasts 10 years. One of the goals of the generally accepted accounting principles (GAAP) in the United States is that your financial statements should give investors and lenders an accurate overview of your finances. That is the reason for the matching principle. Let's say you pay $100,000 in January to take out a seven-year loan of $1.5 million. If you report borrowing costs as an expense, you have abnormally high expenses that month, making your business look less profitable than it is. You will take advantage of the loan during the seven years before you pay it all back. So matching the accounting treatment of loan origination fees to the seven-year period gives a more realistic picture of your finances. Upfront loan fees can include origination fees, points, location fees, application fees, administration fees and more. According to GAAP, the rules for accounting for fees were changed in 2015. Suppose you take a $100,000 four-year loan with $3,500 in application fees and another $1,500 in administration fees. Before you registered $5,000 in startup costs as an asset. As you decried the cost of the loan, you would reduce the asset account and transfer the money to Amortization Expense. Accounting Accounting The Board of Directors (FASB) amended the rules in 2015 to simplify the accounting of borrowing costs. The change also makes the GAAP rules closer to international standards. Under the new rules, a $100,000 four-year loan with $5,000 in upfront costs goes into your ledgers like a $95,000 loan. You deduct the cost from the loan instead of creating a separate asset entry. You then include the amortized cost of the loan as part of the journal entries for interest payments. Suppose your $100,000 loan has a 4% interest rate, so you pay $4,000 in interest during the four-year life of the loan. The bank may include more interest than principal in your original loan payments, but as far as accounting, you pay the interest evenly. Calculating loan fees amortization is relatively simple. The cost is $5,000, which on a four-year loan translates into amortizing $1,250 of the cost each year. You also amortize $4,000 in interest at a rate of $1,000 a year. That's a total $2,250 in loan expense to depreciate each year, with $187.50, or one twelfth of that amount, written off each month. Before 2015, you would have registered two separate items, one for amortizing interest and one for borrowing costs. Under the latest FASB rules, the interest item of the loan covers both expenses. Suppose you take a $500,000 five-year loan with $10,000 in fees and $20,000 in interest. You would register $490,000 in your cash account and an equivalent $490,000 as Net loan debt. A note in the journal describes gross debt, where debt costs are recorded as a counter-account, offset by gross debt. Every year that follows, you reduce the debt cost by $2,000 in amortization. On the balance sheet, you deduct the amortized cost of the loan from transferred profits along with $4,000 in interest for the year, using a single item. This makes your accounting considerably simpler. One way in which this approach is more complicated is that the change has retroactive effect. If you have already had loans that preceded the change, you must revise the financial statements to match the new FASB rules. As 2015 retreats in retrospect, it will eventually stop being a problem. One of the reasons FASB changed the rules was that treating borrowing costs as an asset doesn't make sense. Assets, in accounting, generate revenue. Once you have paid fees for the loan, they no longer generate any income for you. FASB sees pre-costs on a line of credit differently. A line of credit is in progress. Even if you max it out, you can start pulling against it when you pay it out. The cost of creating the line is a gift that keeps on giving so that costs can be considered an asset. For example, suppose you apply to your bank for a $5 million line of credit available for the next three years, with starting costs of $100,000. When you sign all the papers, you report $100,000 as an asset and amortize the amount three years. FASB accepts the write-off of financing fees in this way, even if you never draw on the credit line. A side effect of the new rules That if you are working on mergers, acquisitions or leveraged buyouts, you may need to change your financial models. The new FASB rules change how the fees flow through the model when you finance your merger with borrowed money. The financial models must reflect this to give you accurate predictions. If you're using GAAP, you'll probably need a different set of journals to cover your tax records. Federal tax rules don't follow GAAP, so you have to treat borrowing costs differently. For example, you can only deduct interest you've actually paid. If loan payments include more interest in the early years, you get a larger deduction, followed by a smaller one later. Repayment of principal is never tax deductible, just as you never pay income tax on the loan when you receive it. Interest is tax deductible on most business loans, but some of your fees may not be. For example, if you pay a standby fee to have a line of credit available, you cannot deduct it as an interest payment. If you take out a loan for multiple purposes, you may need to break down the loan and account for each part separately. For example, suppose you're a single man and you take out a $200,000 loan. $100,000 is for new equipment, $50,000 is for investing in a limited partnership, $20,000 for a personal expense, and $30,000 remains in your checking account. The $100,000 is a legitimate business expense. You deduct the interest on the part of the loan accordingly. The $50,000 invested in the limited partnership is a passive activity one you do not actively participate in. You must take interest into account separately from the purchase of the equipment. Interest on the $20,000 you spent on personal expenses is not tax deductible. The $30,000 that remains in your account is processed separately too, as property is held for investment. How to choose the best MortgageChoosing the right mortgage can help make your home buying journey easier and more affordable. See the full article Mortgage Closing Costs ExplainedBefore gets you the keys to your new home, you will have to pay closing costs. Once you understand what they cover, they will look less overwhelming. See the full article How to get pre approved for a mortgage and why the MattersMortgage advance is the smartest hack for homebuying and among the most misunderstood. Here's what lenders want before they'll pre-order you for a home loan. See the full article How much down payment do you need to buy a HomeComing up with cash for a down payment is the biggest roadblock for most home buyers. That's how you know how much you really need. See the entire article Amortization is the process of spreading a loan in a series of fixed payments. The loan is paid at the end of the payment plan. Learn more about amortization and how it works. Amortization refers to how loan payments are applied to certain types of loans. Typically the payment remains the same and it is divided between interest costs (what your lender gets paid for the loan), which reduces your loan loan (also known as paid off loan principal), and other expenses like property taxes. Your last loan payment will pay the final amount back on your debt. For example, after exactly 30 years (or 360 monthly payments), you will pay a 30-year mortgage. Amortization tables help you understand how a loan works, and they can help you predict your outstanding balance or interest costs at any time in the future. The best way to understand amortization is to review an amortization table. If you have a mortgage, the table was included in your loan documents. An amortization table is a schedule that shows each monthly loan payment, as well as how much of each payment goes to interest and how much to the principal. Each amortization table contains the same type of information: Planned payments: Your required monthly payments are individually displayed by month for the length of the loan. Principal repayment: When you apply interest expenses, the rest of your payment goes to pay off your debt. Interest expenses: Out of each scheduled payment, a portion goes toward interest, which is calculated by multiplying your remaining loan balance by your monthly interest. Although your total payment remains equal to each period, you pay the loan's interest and principal amount in different amounts each month. At the beginning of the loan, interest costs are at their highest. As time passes, more and more of each payment goes to your principal, and you pay proportionately less in interest each month. Sometimes it's helpful to see the numbers instead of reading about the process. The table below is called an amortization table (or amortization plan). It shows how each payment affects the loan, how much you pay in interest, and how much you owe on the loan at any given time. This amortization schedule is for the beginning and end of an auto loan. This is a $20,000 five-year loan charging 5% interest (with monthly payments). Monthly Balance (Start) Payment Principal Interest Balance (End) $1 $20,000.00 $377.42 $294.09 $83.33 $19.7 91 2 $19,705.91 $377.42 $295.32 $82.11 $19,410.59 3 $19,19,19,410.59 $377.42 $296.55 $80.88 $19,114.04 4 $19,114.04 $297.78, $79.64 18,816.26 , - is $18,816.26 . 57 $1,494.10 $377.42 $371.20 $6.23 $1,122.90 58 $1,122.90 $377.42 $372.75 $4.68 $750,16 590.16 $377.42 $374.30 $3.13 $375.86 60 $375.86 $377.42 $374.29 $1.57 0 Amortization Tableization To view the full schedule or set up your own table, use a loan amortization calculator. You can also use an online calculator or spreadsheet to create amortization plans. There are many types of loans available and they don't all work the same way. Installment loans are written off and you pay the balance down to zero over time with level payments. They include: Auto loans: These are often five-year (or shorter) depreciated loans that you pay down with a fixed monthly payment. loans are available, but you'll spend more money on interest and risk being upside down on your loan, which means that your loan exceeds your car's resale value if you stretch things out too long to get a lower payment. Home loans: These are often 15-year or 30-year fixed-rate mortgages that have a fixed depreciation schedule, but there are also adjustable-rate mortgages (ARMs). With ARMs, the lender can adjust the rate on a predetermined schedule, which would affect your depreciation plan. Most people don't keep the same home loan for 15 or 30 years, they sell the home or refinance the loan at some point, but these loans work as if you were going to keep them for the whole period. Personal loans: These loans, which you can obtain from a bank, credit union, or online lender, are generally depreciated loans as well. They often have three-year terms, fixed interest and fixed monthly payments. They are often used for small projects or debt consolidation. Some loans don't have amortization. They include: Credit cards: With these, you can repeatedly borrow on the same card, and you get to choose how much you want to repay each month as long as you meet the minimum payment. These types of loans are also known as revolving debts. Interest-only loans: These loans don't amortize either, at least not at the beginning. During the interest period, you only pay the principal down if you make optional additional payments in addition to interest costs. At some point, the lender will require you to start paying principal and interest on an amortization schedule or pay off the loan in full. Balloon loan: This type of loan requires you to make a large principal payment at the end of the loan. In the early years of the loan, you will make small payments, but the entire loan comes due in the end. In most cases, you will probably refinance the balloon payment unless you have a large amount of money on hand. Looking at amortization is useful if you want to understand how borrowing works. Consumers often make decisions based on an affordable monthly payment, but interest costs are a better way to measure the real cost of what you're buying. Sometimes a lower monthly payment actually means you pay more in interest. For example, if you stretch out the repayment time, you will pay more in interest than you would for a shorter repayment period. With the information provided in an amortization table, it is easy to evaluate different loan options. You can compare lenders, choose between a 15- or 30-year loan, or decide whether to refinance an existing loan. You can even calculate how much you want to save by paying off debt early. With most loans, you'll get to skip all the remaining interest expenses if you pay them off early. Do not assume that all loan information is included in a standard amortization plan. Some amortisation tables show additional information about a loan charges such as closing costs and accumulated interest (a running total showing the total interest paid after a specific time), but if you don't see this information, ask your lender. Amortization is the process of spreading a loan in a series of fixed payments. The loan is paid at the end of the payment plan. Some of each payment goes to interest costs and some goes towards your loan balance. Over time, you pay less in interest and more towards your balance. An amortization table can help you understand how your payments are used. Joint amortizing loans include auto loans, home loans, and personal loans. Loans.